

Message Text

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21

ACTION EUR-12

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AMEMBASSY COPENHAGEN

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SUBJ: FRG AID TO PORTUGAL

REF: (A) BONN 2220; (B) BONN 20723, DEC 23, 1975

1. BEGIN SUMMARY. MFA OFFICIAL HANDLING ECONOMIC
RELATIONS WITH PORTUGAL BRIEFED EMBOFF FEBRUARY 10
ON STATUS OF GERMAN BILATERAL AID, PROPOSED
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INVESTMENT GUARANTY AGREEMENT, AND REVIVAL OF GERMAN-

PORTUGUESE ECONOMIC COMMISSION. ACCORDING TO THIS SOURCE, FRG EVALUATION OF RIO MONDEGO IRRIGATION PROJECT IS ALMOST COMPLETED, SO THAT PROJECT SHOULD SOON BE UNDERWAY. IN ADDITION TO DEVELOPMENT AND BALANCE OF PAYMENTS ASSISTANCE, FRG BELIEVES IT IS VITAL TO RESTORE CONFIDENCE OF GERMAN FIRMS HAVING DIRECT INVESTMENTS IN PORTUGAL. END SUMMARY.

2. FRG KREDITANSTALT FUER WIEDERAUFBU, WHICH HAS RESPONSIBILITY FOR IMPLEMENTING FRG CAPITAL ASSISTANCE PROJECTS, IS SENDING TEAM TO PORTUGAL IN MID-FEBRUARY TO MAKE FINAL EVALUATION OF RIO MONDEGO PROJECT. DM 70 MILLION FRG CREDIT WILL BE USED PRIMARILY FOR FOREIGN EXCHANGE COSTS, BUT THERE IS SOME LIKELIHOOD THAT A SMALL SHARE OF THIS CREDIT WILL BE USED FOR LOCAL PROCUREMENT. PRESENT FRG PROJECT IS LIMITED TO IRRIGATION AND DRAINAGE FACILITIES, BUT FRG IS CONTEMPLATING ADDITIONAL PROJECTS IN RIO MONDEGO VALLEY IF THIS FIRST PROJECT IS SUCCESSFUL. DM 70 MILLION CREDIT WAS APPROVED AS PART OF THE FRG'S 1975 BUDGET FOR DEVELOPMENT ASSISTANCE, AND HAS BEEN CARRIED OVER INTO 1976. FRG MAY PROVIDE ADDITIONAL CAPITAL ASSISTANCE IN 1976 BUDGET, IF IT IS NEEDED FOR RIO MONDEGO PROJECT. HOWEVER, AT THIS POINT THE GRANTING OF ADDITIONAL AID IN 1976 REMAINS PROBLEMATIC. DM 70 MILLION CREDIT IS PROBABLY SUFFICIENT TO COVER DISBURSEMENTS FOR RIO MONDEGO FOR SOME TIME, AND PORTUGUESE THEMSELVES HAVE NOT REQUESTED FRG ASSISTANCE FOR ANY OTHER PROJECTS. MOREOVER, FRG CONTRIBUTION TO INTEREST SUBSIDIES FOR 30 MILLION UA LOANS BY EUROPEAN INVESTMENT BANK WILL HAVE TO COME OUT OF ECONOMIC COOPERATION MINISTRY'S BUDGET. IT IS NOT LIKELY THAT GERMAN AID OFFICIALS WILL WANT TO ALLOCATE VERY MUCH IN ADDITION TO PORTUGAL OUT OF 1976 BUDGET, GIVEN THE FRG POLICY OF CONCENTRATING DEVELOPMENT AID ON THE LEAST DEVELOPED COUNTRIES.

3. THE FRG IS PLANNING TO SEND TEAM TO LISBON IN LATE MARCH OR EARLY APRIL TO NEGOTIATE AN INVESTMENT GUARANTY AGREEMENT ON BASIS OF FRG MODEL AGREEMENT. LIMITED OFFICIAL USE

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PORTUGUESE HAVE HAD COPY OF MODEL AGREEMENT FOR SOME TIME AND HAVE NOT INDICATED THAT THEY HAVE ANY PROBLEMS WITH IT, BUT OUR SOURCE DID NOT DISCOUNT POSSIBILITY OF DIFFICULT NEGOTIATIONS.

4. AS AN ADDITIONAL MEASURE FOR ENCOURAGING PRIVATE INVESTMENT THE GERMAN-PORTUGUESE ECONOMIC COMMISSION WILL BE RE-ESTABLISHED. IT WILL BE A MIXED COMMISSION

OF GOVERNMENT AND BUSINESS REPRESENTATIVES, CHAIRED
ON THE FRG SIDE BY MFA. IT IS INTENDED TO SERVE
PRIMARILY AS A FORUM FOR DISCUSSING PROBLEMS RELATED
TO GERMAN INVESTMENTS IN PORTUGAL AND OTHER ISSUES
OF CONCERN TO GERMAN BUSINESS COMMUNITY. MIXED
COMMISSION WAS FIRST ESTABLISHED IN 1950'S, AT A TIME
WHEN GERMAN FIRMS WERE FIRST RE-ENTERING PORTUGAL,
AND PROVED QUITE USEFUL AT THAT TIME. ONCE GERMAN
FIRMS WERE FIRMLY ESTABLISHED, THIS EARLY MIXED
COMMISSION FELL INTO DISUSE.
CROWLEY

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